

TWENTY-FIFTH ANNUAL REPORT

OF THE

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS
FOR THE YEAR 1938



UNITED STATES OF AMERICA
WASHINGTON: 1939

RECORD OF POLICY ACTIONS—FEDERAL OPEN MARKET COMMITTEE

MEETING ON MARCH 1, 1938

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Sinclair, Mr. Newton, Mr. Schaller, Mr. Peyton.

Authority (1) to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account and (2) to Increase or Decrease System Open Market Account.

By unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Federal Open Market Committee, to direct the replacement of maturing securities in the system open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

The Committee also voted unanimously to authorize the executive committee upon written, telephonic, or telegraphic approval of a majority of the members of the Federal Open Market Committee, and until otherwise directed by the Committee, to direct the purchase in the open market from time to time of sufficient amounts of Government securities to meet the requirements of commerce, business, and agriculture by keeping at member banks an aggregate volume of excess reserves adequate for the continuance of the System's policy of maintaining credit conditions conducive to economic recovery; and to authorize the executive committee, upon written, telephonic, or telegraphic approval of a majority of the members of the Committee, and until otherwise directed by the Committee, to direct a reduction of the holdings of such securities, to the extent that their retention was found to be unnecessary for the purpose of this action. It was understood, however, that the executive committee was not authorized to increase or decrease by more than \$300,000,000 the amount of securities held in the system open market account.

In the opinion of the Committee the existing amount of excess reserves of member banks was not too large in view of the low volume of business activity, declining prices, and business uncertainty and, therefore, no useful purpose would be achieved at this time by reducing the amount of the securities held by the System. It was agreed, however, that provision should be made for prompt action in purchasing securities, when approved by a majority of the Committee for the purpose of keeping at member banks an aggregate volume of excess reserves adequate for the continuance of the system's policy of maintaining credit conditions conducive to economic recovery, and that similar provision should be made

for the sale of securities to the extent that their retention would be unnecessary for this purpose. It was agreed also that the existing authority of the executive committee to replace maturing securities and to make shifts of securities in the account should be continued in order to enable the executive committee to meet changing market conditions and to improve the distribution of maturities in the account.

MEETING ON APRIL 22, 1938

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Sinclair, Mr. Newton, Mr. Schaller, Mr. Peyton.

Authority to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account.

The following resolution was presented by Mr. Harrison, who moved its adoption:

"In view of the fact that the present and prospective amounts of excess reserves of member banks are tending to make it more difficult for the System, by means of shifts in the maturities in the open market account, to exercise its influence towards orderliness in the Government securities market

VOTED that, until otherwise authorized or directed by the Committee, and in addition to the authority to make shifts in the maturities in the system open market account, the executive committee be authorized to permit fluctuations in the total amount of the account in order more effectively, with the means available and in the light of current conditions, to exert its influence towards orderly conditions in the Government bond market, provided, however, that the account shall not be increased or decreased by more than \$200,000,000 from the present level of the account."

The presentation of the foregoing resolution followed a detailed discussion of developments in connection with the recently announced Government program for the encouragement of business recovery, including the release of gold held in the inactive gold account of the Treasury, the reduction made by the Board of Governors of the Federal Reserve System as of April 16, 1938, in reserve requirements of member banks, and a reduction in the amounts of current weekly offerings by the Treasury of Treasury bills for sale in the market. Mr. Harrison presented his resolution on the ground that in all the circumstances the executive committee should have authority to permit some flexibility in the system open market account by allowing some reduction in the amount of the account if that should seem desirable as a factor in restraining a disorderly rise in the market just as in the past, by purchases of securities, it had exerted its influence toward maintaining an orderly market on a decline. In his opinion, some reasonable reduction in the account at such a time should not be interpreted as a reversal of the policy of the Government with respect to excess reserves and probably would serve to make the market less vulnerable in the future.

As a substitute for Mr. Harrison's resolution, a motion was made and carried unanimously that the executive committee be instructed to direct the replacement of

the next maturing Treasury bills in the system open market account with Treasury bills or notes having maturities not to exceed two years, provided that such securities could be purchased without paying a premium above a no-yield basis, with the understanding that another meeting of the Federal Open Market Committee would be held next week.

Thereupon, by unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Committee and subject to the limitations contained in the motion previously adopted on this date with respect to the next maturing Treasury bills in the account, to direct the replacement of maturing securities in the system open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

The foregoing actions were taken by the Committee on the ground that the question of general policy to be followed by the Committee required further study in the light of actual developments during an interval before another meeting of the Committee, which it was agreed should be held the following week and, therefore, that during such interval there should be no change in the size of the system account except to the extent that it might prove to be impossible to replace maturing securities without paying a premium over a no-yield basis for replacement securities maturing within two years.

MEETING ON APRIL 29, 1938

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Sinclair, Mr. Newton, Mr. Peyton, Mr. Martin (alternate for Mr. Schaller).

Authority (1) to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account and (2) to Increase or Decrease the System Open Market Account.

It was moved that the following resolutions be adopted:

"That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for the replacement of maturing securities in the system open market account with other Government securities and for such shifts in maturities as may be necessary in the proper administration of the account, provided (1) that maturing Treasury bills shall be replaced only with Treasury bills or notes maturing within two years to the extent that they can be purchased without paying a premium over a no-yield basis; (2) that, subject to the foregoing limitation, the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000; and (3) that the amount of bonds in the account having maturities in

excess of five years be maintained at not less than \$500,000,000 nor more than \$850,000,000.

"That, in addition to such authority as may be contained in other resolutions of the Federal Open Market Committee and until otherwise directed by the Committee, the executive committee be authorized, upon written, telephonic or telegraphic approval of a majority of the members of the Federal Open Market Committee, to arrange for the purchase or sale (which would include authority to allow maturities to run off without replacement) of Government securities in the open market from time to time for the system open market account to such extent as the executive committee shall find to be necessary for the purpose of exercising an influence toward maintaining orderly market conditions, provided (1) that the total amount of securities in the account be not increased or decreased by more than \$125,000,000, and (2) that the amount of bonds in the account having maturities over five years be maintained at not less than \$500,000,000 nor more than \$850,000,000."

Mr. Harrison moved as a substitute for the above motion that the following resolution be adopted:

"That until otherwise authorized or directed by the Federal Open Market Committee the executive committee be authorized (a) to make such shifts in maturities in the system open market account as may be necessary in the proper administration of the account, and (b) to permit fluctuations in the total amount of the account in order more effectively with the means available and in the light of current conditions to exert its influence toward maintaining orderly conditions in the market, provided (1) that the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000, (2) that the amount of bonds in the account having maturities in excess of five years be maintained at not less than \$500,000,000 nor more than \$850,000,000, and (3) that the total amount of the account be not increased or decreased by more than \$200,000,000 from the present level of the account."

The substitute motion was put by the Chair and lost, the members voting as follows: "aye," Messrs. Harrison, McKee and Sinclair; "no," Messrs. Eccles, Szymczak, Ransom, Davis, Draper, Newton, Peyton and Martin.

The original motion was put by the Chair and carried unanimously.

Mr. Harrison's substitute resolution was offered on the ground that it might become increasingly difficult for the system to exercise an influence toward orderly conditions in the market by means of shifts in maturities in the account; that further replacement of maturing securities with short maturities might accentuate the existing abnormalities in short and long term rates; that an effort to exert an influence toward orderly market conditions at this time was important if we were to avoid a too rapid or extensive rise in bond prices which might make the market vulnerable to later reactions; that a reduction in the account at this time, especially if it resulted merely from a failure to replace maturities and if effected for the purpose of exercising the